

TOWN OF BROOKLINE, MASSACHUSETTS

***REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION***

FISCAL YEAR ENDED JUNE 30, 2001

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Financial Section



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

www.powersandsullivan.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

 member

We have audited the accompanying general purpose financial statements of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2001 (except for the Brookline Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2000), as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Brookline, Massachusetts, as of June 30, 2001 (except for the Brookline Contributory Retirement System, which is as of December 31, 2000), and the results of its operations and cash flows of its Proprietary Fund Types and Nonexpendable Trust Funds and the changes in net assets available for employees' pension benefits of its Pension Trust Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2001 our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Town of Brookline, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

October 26, 2001

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General Purpose Financial Statements

**ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET**

JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Cash and short-term investments	\$ 37,968,081	\$ 5,430,903	\$ 13,924,157
Investments			
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	403,275		
Tax liens	531,638		
Motor vehicle excise	1,985,794		
User fees	1,628,986		
Departmental and other	574,444		1,000,000
Interest and dividends			
Intergovernmental	34,075,000	5,136,124	
Loans	500,000	739,453	
Fixed assets, net			
Other assets	3,626		
Amounts to be provided for retirement of long-term obligations			
TOTAL ASSETS AND OTHER DEBITS	\$ 77,670,844	\$ 11,306,480	\$ 14,924,157
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
LIABILITIES:			
Warrants payable	\$ 2,672,211	\$ 410,250	\$ 1,572,981
Accrued liabilities	1,561,017		
Reserve for abatements	4,292,011		
Other liabilities	270,240	18,448	
Deferred revenues	36,143,462	3,750,947	
Landfill closure			
Accrued compensated absences			
Loans payable			
Bonds and notes payable			10,500,000
TOTAL LIABILITIES	44,938,941	4,179,645	12,072,981
FUND EQUITY (DEFICIT):			
Investment in general fixed assets			
Retained earnings (deficit)			
Fund balance:			
Reserved for:			
Encumbrances and continuing appropriations	3,650,339		
Loans		739,453	
Nonexpendable trusts			
Stabilization			
Employees' pension benefits			
Unreserved:			
Designated for subsequent year's expenditures	7,809,350		
Undesignated	21,272,214	6,387,382	2,851,176
TOTAL FUND EQUITY (DEFICIT) AND OTHER CREDITS	32,731,903	7,126,835	2,851,176
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 77,670,844	\$ 11,306,480	\$ 14,924,157

See notes to general purpose financial statements.

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
REVENUES:					
Real estate and personal property taxes, net of reserve for abatements	\$ 99,685,804	\$ -	\$ -	\$ -	\$ 99,685,804
Motor vehicle and other excise taxes	5,289,785				5,289,785
Payments in lieu of taxes	1,618,424				1,618,424
Water and Sewer charges	16,851,299				16,851,299
Licenses and permits	761,422				761,422
Fines and forfeitures	3,180,479				3,180,479
Intergovernmental	24,783,961	8,035,307	1,192,434	300	34,012,002
Investment income	3,455,273	196,404	2,694,023	636,272	6,981,972
Contributions				1,884,309	1,884,309
Departmental and other	7,960,842	7,532,255			15,493,097
TOTAL REVENUES	163,587,289	15,763,966	3,886,457	2,520,881	185,758,593
EXPENDITURES:					
Current:					
General government	7,249,267	434,696		313,588	7,997,551
Public safety	27,663,829	557,337		11,204	28,232,370
Education	47,324,184	9,160,696		150,691	56,635,571
Public works	27,287,091	316,675		25,725	27,629,491
Human services	1,697,203	96,294		560,878	2,354,375
Leisure services	3,580,462	442,899		63,444	4,086,805
Community and economic development		1,716,591			1,716,591
Pension benefits	15,124,628				15,124,628
Fringe benefits	11,756,732				11,756,732
State and county charges	5,940,439				5,940,439
Capital outlay			14,217,508		14,217,508
Debt service:					
Principal	7,501,408				7,501,408
Interest	5,620,218				5,620,218
TOTAL EXPENDITURES	160,745,461	12,725,188	14,217,508	1,125,530	188,813,687
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,841,828	3,038,778	(10,331,051)	1,395,351	(3,055,094)
OTHER FINANCING SOURCES (USES):					
Proceeds of general obligation bonds			3,488,000		3,488,000
Operating transfers in	3,333,409		6,427,500	95,400	9,856,309
Operating transfers out	(6,522,900)	(3,573,409)		(10,000)	(10,106,309)
TOTAL OTHER FINANCING SOURCES (USES)	(3,189,491)	(3,573,409)	9,915,500	85,400	3,238,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(347,663)	(534,631)	(415,551)	1,480,751	182,906
FUND BALANCES AT BEGINNING OF YEAR	33,079,566	7,661,466	3,266,727	6,220,817	50,228,576
FUND BALANCES AT END OF YEAR	\$ 32,731,903	\$ 7,126,835	\$ 2,851,176	\$ 7,701,568	\$ 50,411,482

See notes to general purpose financial statements.

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETARY BASIS - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Real estate and personal property taxes	\$ 100,217,510	\$ 100,472,864	\$ 255,354
Motor vehicle and other excise taxes	4,000,000	5,289,785	1,289,785
Payments in lieu of taxes	1,150,000	1,618,424	468,424
Water and Sewer charges	18,024,099	16,851,299	(1,172,800)
Licenses and permits	760,000	761,422	1,422
Fines and forfeitures	2,700,000	3,180,479	480,479
Intergovernmental	17,783,235	18,175,961	392,726
Investment income	1,680,000	3,455,273	1,775,273
Departmental and other	5,755,500	7,960,842	2,205,342
TOTAL REVENUES	152,070,344	157,766,349	5,696,005
EXPENDITURES:			
Current:			
General government	7,561,093	7,273,841	287,252
Public safety	28,627,866	26,661,578	1,966,288
Education	47,493,879	47,493,339	540
Public works	29,257,447	27,464,189	1,793,258
Human services	1,760,525	1,698,591	61,934
Leisure services	3,815,020	3,811,676	3,344
Pension benefits	8,516,628	8,516,628	-
Fringe benefits	4,042,366	3,890,309	152,057
Allowance for abatements	2,096,864	942,075	1,154,789
State and county charges	6,162,608	5,940,439	222,169
Debt service:			
Principal	7,501,408	7,501,408	-
Interest	5,854,676	5,620,218	234,458
TOTAL EXPENDITURES	152,690,380	146,814,291	5,876,089
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(620,036)	10,952,058	11,572,094
OTHER FINANCING SOURCES (USES):			
Overlay surplus	2,700,000	2,700,000	-
Operating transfers in	3,760,662	3,333,409	(427,253)
Operating transfers out	(6,522,900)	(6,522,900)	-
Transfers to self insurance fund	(7,856,134)	(7,856,134)	-
Use of unreserved fund balance	8,538,408	8,538,408	-
TOTAL OTHER FINANCING SOURCES (USES)	620,036	192,783	(427,253)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ -	\$ 11,144,841	\$ 11,144,841

See notes to general purpose financial statements.

ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Golf Enterprise	Internal Service	Nonexpendable Trusts	
OPERATING REVENUES:				
Employer contributions	\$ -	\$ 10,060,447	\$ 38,006	\$ 10,098,453
Employee and other contributions		1,605,019		1,605,019
Charges for services	819,983			819,983
TOTAL OPERATING REVENUES	819,983	11,665,466	38,006	12,523,455
OPERATING EXPENSES:				
Cost of services and administration	1,096,360			1,096,360
Depreciation	37,868			37,868
Employee benefits		13,125,012		13,125,012
TOTAL OPERATING EXPENSES	1,134,228	13,125,012	-	14,259,240
OPERATING INCOME (LOSS)	(314,245)	(1,459,546)	38,006	(1,735,785)
NONOPERATING REVENUES (EXPENSES):				
Investment income (loss)		273,781	(77,185)	196,596
Interest expense	(15,643)			(15,643)
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(15,643)	273,781	(77,185)	180,953
(LOSS) BEFORE OPERATING TRANSFERS	(329,888)	(1,185,765)	(39,179)	(1,554,832)
OPERATING TRANSFERS:				
Transfers in	250,000	-	-	250,000
NET (LOSS)	(79,888)	(1,185,765)	(39,179)	(1,304,832)
FUND EQUITY (DEFICIT)				
Beginning of year	(7,678)	1,857,015	5,988,916	7,838,253
FUND EQUITY (DEFICIT)				
End of year	<u>\$ (87,566)</u>	<u>\$ 671,250</u>	<u>\$ 5,949,737</u>	<u>\$ 6,533,421</u>

See notes to general purpose financial statements.

ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types	Total (Memorandum Only)
	Golf Enterprise	Internal Service	Nonexpendable Trusts	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (314,245)	\$ (1,459,546)	\$ 38,006	\$ (1,735,785)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	37,868			37,868
Changes in assets and liabilities:				
Prepaid expenses		596,467		596,467
Warrants payable	32,438	(85,640)		(53,202)
Accrued liabilities	(735)	2,074,000		2,073,265
Other liabilities		(698,537)		(698,537)
Notes payable	500,000			500,000
Total adjustments	569,571	1,886,290	-	2,455,861
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	255,326	426,744	38,006	720,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in	250,000			250,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from general obligation bonds	300,000			300,000
Capital outlay	(214,707)			(214,707)
Interest expense	(15,643)			(15,643)
Principal payments on bonds and notes	(45,000)			(45,000)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	24,650	-	-	24,650
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income (loss)		273,781	(77,185)	196,596
NET INCREASE (DECREASE) IN CASH	529,976	700,525	(39,179)	1,191,322
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	40,043	4,742,661	2,102,025	6,884,729
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$ 570,019	\$ 5,443,186	\$ 2,062,846	\$ 8,076,051
RECONCILIATION TO COMBINED BALANCE SHEET:				
Cash and short-term investments at end of year	\$ 570,019	\$ 5,443,186	\$ 2,062,846	\$ 8,076,051
Cash and short-term investments at end of year, Expendable Trust and Agency		-	7,025,568	7,025,568
CASH AND SHORT-TERM INVESTMENTS PER THE COMBINED BALANCE SHEET	\$ 570,019	\$ 5,443,186	\$ 9,088,414	\$ 15,101,619

See notes to general purpose financial statements.

PENSION TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR EMPLOYEES' PENSION BENEFITS
YEAR ENDED DECEMBER 31, 2000

ADDITIONS:

Employer contributions	\$ 8,318,500
Employee contributions	<u>3,351,620</u>
Total contributions	<u>11,670,120</u>

Net investment income:

Net depreciation in fair value of investments	(3,646,144)
Interest	<u>4,784,471</u>
Total investment income	1,138,327

Less investment expense	<u>(577,153)</u>
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Net investment income	<u>561,174</u>
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Intergovernmental	731,912
Transfers from other systems	<u>371,684</u>

Total additions	<u>13,334,890</u>
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DEDUCTIONS:

Administration	303,450
Retirement benefits and refunds	13,361,873
Transfers to other systems	<u>701,173</u>

Total deductions	<u>14,366,496</u>
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Net decrease	(1,031,606)
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Net assets available for employees' pension benefits at beginning of year (fund balance reserved for employees' pension benefits)	<u>156,874,029</u>
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Net assets available for employees' pension benefits at end of year (fund balance reserved for employees' pension benefits)	<u>\$ 155,842,423</u>
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See notes to general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the Town of Brookline, Massachusetts (the Town), have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town was founded in 1630 as a part of Boston and was incorporated in 1705 under the Statutes of the Commonwealth of Massachusetts (the Commonwealth). The Town operates under a representative Town Meeting form of government and provides the following services to the residents of its community: administrative, public safety, public works, education, community development, water and sewer, health, elder and recreation.

The Town is a municipal corporation governed by an elected Board of Selectmen (the Board).

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential Component Units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's general purpose financial statements to be misleading or incomplete. As required by GAAP, these general purpose financial statements present the Town (the Primary Government) and its Component Units. The Town has included one entity as a Component Unit in the reporting entity, because of the significance of its operational and/or financial relationship with the Town.

Blended Component Units – Blended Component Units are entities which are legally separate from the Town, but are so related to the Town that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The Brookline Contributory Retirement System is blended within the Primary Government.

The Brookline Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five member board comprised of the Town Comptroller (ex-officio), an appointee of the Board, two members elected by the active and retired members of the System and one member appointed by the other four board members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund. The System did not issue a separate audited financial statement.

Joint Ventures – The Town is a member of the Massachusetts Water Resources Authority (MWRA), a joint venture with other Massachusetts governmental entities that was organized to provide water and sewer services to the respective members' Cities, Towns and Districts. Complete financial statements for the MWRA can be obtained directly from their administrative office located at 100 First Avenue, Boston, Massachusetts 02189.

The Town is also a member of the Massachusetts Bay Transportation Authority (MBTA), a joint venture with other Massachusetts governmental entities that was organized to provide public transportation services to the respective members' Cities, Towns and Districts. Complete financial statements for the MBTA can be obtained directly from their administrative office located at 10 Park Plaza, Boston, Massachusetts 02116.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Town are organized and operated on the basis of Funds and Account Groups. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates Funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal and contractual provisions. The minimum number of Funds is maintained consistent with legal and managerial requirements. Account Groups are a reporting device used to account for certain assets and liabilities of Governmental Funds not recorded directly in those Funds.

The Town has the following Fund Types and Account Groups:

Governmental Funds are used to account for the Town's general governmental activity. Governmental Fund Types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, landfill closure liabilities, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received by the Town, and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

Governmental Funds include the following Fund Types:

The *General Fund* is the general operating Fund of the Town. It is used to account for all financial resources, except those required to be accounted for in another Fund.

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than Expendable Trusts or Capital Projects) that are restricted by law or administrative action to expenditures for specified purposes.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Trust Funds).

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. For Proprietary Fund accounting, the Town applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncement

The *Enterprise Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Enterprise Fund is used to account for the Town's Golf Course activities.

The *Internal Service Fund* is used to account for the financing of services provided by one department to other departments or governmental units. The Town is accounting for its risk financing activities related to health insurance, workers' compensation and municipal building insurance in its Internal Service Fund.

Fiduciary Funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the Town under the terms of a trust agreement.

The *Expendable Trust Fund* is accounted for in essentially the same manner as Governmental Fund Types, using the same measurement focus and basis of accounting. Expendable Trust Funds are used to account for trusts where both principal and earnings may be spent.

The *Nonexpendable Trust Fund* and *Pension Trust Fund* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Nonexpendable Trust Fund is used to account for trusts that stipulate that only earnings, and not principal, may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. This Fund is used to account for assets that the Town holds for others in an agency capacity.

The **General Fixed Assets Account Group** accounts for the general fixed assets of the Town.

The **General Long-Term Obligations Account Group** is used to account for general long-term bonds and notes issued by the Town, compensated absences, landfill closure liabilities and claims and judgments that will be financed in future fiscal years from Governmental Funds.

C. Cash and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

D. Property Taxes

Property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors' for 100% of the estimated fair market value. Taxes are due on February 1st, May 1st, August 1st and November 1st and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed during the fourth quarter of every fiscal year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

E. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories of the Governmental and Enterprise Funds are not material in total to the general purpose financial statements and, therefore, are not reported.

F. Fixed Assets*Governmental Funds*

General fixed asset acquisitions are recorded as expenditures in the acquiring Fund and capitalized in the General Fixed Assets Account Group in the fiscal year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of donation. In addition, interest is not capitalized on constructed general fixed assets and general fixed assets are not depreciated.

Enterprise Fund

Fixed assets of the Enterprise Fund are valued at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of donation. In addition, interest is not capitalized on constructed fixed assets.

Enterprise Fund fixed assets are depreciated on a straight-line basis. The estimated useful lives of general fixed assets are as follows:

Improvements.....	20
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Governmental Funds and Enterprise Fund

The Town does not capitalize land or infrastructure. The Town's infrastructure assets, such as roads, bridges, sidewalks and water and sewer lines, are generally immovable and are of value only to the Town.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenditures/expenses when incurred. Improvements are capitalized.

The Town capitalizes all purchases and construction costs in excess of \$5,000 at the date of acquisition or construction, respectively, with expected useful lives of greater than one fiscal year.

G. Interfund/Intrafund Transactions

During the course of its operations, the Town records transactions between Funds and/or between departments. Transactions of a buyer/seller nature between departments within a Fund are not eliminated from the individual Fund statements. Receivables and payables resulting from transactions between Funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

H. Fund Equity

The Town reports fund balances as reserved and designated where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represent amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Loans" represent the Town's Community Development outstanding loans receivable.

"Nonexpendable trusts" represents amounts held by the Town for which only investment earnings may be expended.

"Stabilization" represents the amount accumulated for general and/or capital purposes upon Town Meeting approval.

"Employees' pension benefits" represent the net assets available to the System's participants that cannot be used for any other purpose.

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represent the amount of unreserved fund balance that has been voted to balance the fiscal year 2002 budget.

I. Long-Term Debt

Long-term financing for Governmental Funds is recorded in the General Long-Term Obligations Account Group. Principal and interest expenditures on long-term debt are recorded in the General Fund.

Long-term financing of the Enterprise Fund is recorded as bonds payable in the Enterprise Fund. Principal pay downs and interest expenses paid on long-term debt are recorded in the Enterprise Fund.

J. Investment Income

Investment income from Special Revenue and Capital Projects Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the Enterprise Fund is voluntarily assigned and transferred to the General Fund. The Internal Service Fund retains its investment income.

Investment income from the Nonexpendable Trust Fund is legally assigned to the Expendable Trust Fund.

K. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. For Governmental Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and Fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

For Enterprise Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and Fund liabilities. Amounts that are not expected to be so liquidated are considered immaterial and therefore not recorded.

L. Post Retirement Benefits

In addition to providing pension benefits, the Town provides health and life insurance coverage for retired employees and their survivors. The Town recognizes the cost of providing health and life insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2001, this expenditure totaled approximately \$4,466,000. There were approximately 2,050 participants eligible to receive benefits at June 30, 2001.

M. Use of Estimates

The preparation of general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

N. Total Column (Memorandum Only)

The total column used on the Combined General Purpose Financial Statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

Municipal Law requires the Town to adopt a balanced budget that is approved at the Annual Town Meeting. The Advisory Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted for each department by four major appropriation units, which are personal services, expenses, debt service and capital outlay that are mandated by Municipal Law. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Amendments to the originally adopted budget and transfers between departments require the approval of Town Meeting. Transfers between appropriation units within a department (except for the School Department and Library) require the approval of the Town Administrator, and are subject to certain restrictions that may require authorization from the Board and Advisory Committee. Expenditures within the appropriation of the School Department are not restricted. Transfers between Library appropriation units require the approval of the Board of Library Trustees.

The majority of the Town's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final claims and judgements may exceed the level of spending authorized by two-thirds majority vote of Town Meeting.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2001 approved budget for the General Fund authorized approximately \$165,267,000 in appropriations and other amounts to be raised. During fiscal year 2001, the Town also approved supplemental appropriations in the General Fund for approximately \$1,803,000.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

Accounting principles followed for purposes of preparing general purpose financial statements on a budgetary basis differ from those used to present general purpose financial statements in conformity with GAAP. A reconciliation of budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2001, is presented below:

Excess of revenues and other financing sources (uses) over expenditures – budgetary basis.....	\$11,144,841
<u>Perspective difference:</u>	
Self-insured transfer recorded as an expenditure for GAAP.....	7,856,134
<u>Basis of accounting differences:</u>	
Net increase in revenues.....	5,820,940
Use of unreserved fund balance.....	(8,538,408)
Use of overlay surplus.....	(2,700,000)
Net (increase) decrease in recording expenditures, encumbrances and continuing appropriations.....	(13,931,170)
Excess of revenues and other financing sources (uses) over expenditures – GAAP basis.....	<u>(\$ 347,663)</u>

C. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2001, within the Special Revenue Fund. These deficits will be funded through grants and available fund balance during fiscal year 2002.

The Golf Enterprise Fund has an accumulated deficit of (\$87,566) at June 30, 2001. This deficit will be funded in future fiscal years by user charges.

NOTE 3 - CASH AND INVESTMENTS

The Town maintains a cash and investment pool that is available for use by all Funds. Each Fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the Trust Funds are held separately from those of other Town funds.

At fiscal year-end, the carrying amount of the Town's deposits totaled \$16,828,191 and the bank balance was \$18,497,366. Of the bank balance, \$778,962 was covered by Federal Depository Insurance, \$399,074 was covered by the Depositors Insurance Fund, and \$17,319,330 was uninsured and uncollateralized. The carrying amount of cash at June 30, 2001, consisted of the following:

<u>Description</u>	<u>Amount</u>
Savings, Checking & NOW accounts.....	\$ 7,854,754
Money Market deposits.....	8,894,475
Certificates of Deposit.....	<u>78,962</u>
Carrying amount of cash.....	<u>\$16,828,191</u>

At December 31, 2000, the carrying amount of deposits for the System totaled \$1,398,309 and the bank balance of \$2,319,932 was covered by Federal Depository Insurance.

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Town participates in the Pool, which meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Town or its agent in the Town's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the Town's name.

Investments for the Town are summarized as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
U.S. Government Securities.....	\$ 239,856	\$ -	\$ -	\$ 239,856
Common and Preferred Stock.....	2,347,572	-	-	2,347,572
Mutual Funds.....	-	<u>2,558,493</u>	-	<u>2,558,493</u>
Sub-total.....	<u>\$2,587,428</u>	<u>\$2,558,493</u>	<u>\$ -</u>	5,145,921

Investments not subject to categorization:

State Treasurer's Investment Pool (MMDT)....	<u>55,596,569</u>
Total Investments.....	<u>\$60,742,490</u>

Investments for the System at December 31, 2000, subject to categorization are classified as category one and are summarized as follows:

Equity Securities.....	\$ 78,891,969
International Equity Securities.....	14,868,415
Fixed Income Securities.....	<u>48,603,454</u>
Sub-total.....	142,363,838

Investments not subject to categorization:

Mutual Funds.....	14,414,834
Pension Reserve Investment Trust.....	<u>792,974</u>
Total Investments.....	<u>\$157,571,646</u>

The following is a reconciliation of the Town's investments as summarized above to the balance as reported in the combined balance sheet at June 30, 2001:

Investments of the Town as summarized above.....	\$ 60,742,490
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	(<u>55,596,569</u>)
Investments of the Town as reported on the combined balance sheet.....	<u>\$ 5,145,921</u>

The following is a reconciliation of the Town's balance of cash and short-term investments as reported on the combined balance sheet at June 30, 2001:

Carrying amount of cash.....	\$16,828,191
Add: Short-term investments.....	<u>55,596,569</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$72,424,760</u>

The following is a reconciliation of the System's investments as summarized above to the balance as reported in the combined balance sheet at June 30, 2001:

Investments of the System as summarized above.....	\$157,571,646
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	(<u>14,414,835</u>)
Investments of the System as reported on the combined balance sheet.....	<u>\$143,156,811</u>

The following is a reconciliation of the System's balance of cash and short-term investments as reported on the combined balance sheet at June 30, 2001:

Carrying amount of cash.....	\$ 1,398,309
Add: Short-term investments.....	<u>14,414,835</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$15,813,144</u>

NOTE 4 – FIXED ASSETS

General Fixed Assets Account Group – Changes in general fixed assets by category at June 30, 2001, are as follows:

	<u>Balance at July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2001</u>
Buildings.....	\$ 96,856,174	\$ 30,672,910	\$ -	\$127,529,084
Machinery and equipment.....	22,014,970	2,616,223	(5,289,725)	19,341,468
Construction in progress.....	29,818,759	12,840,298	(29,818,759)	12,840,298
Land improvements.....	-	628,409	-	628,409
Infrastructure.....	-	4,341,900	-	<u>4,341,900</u>
Total General Fixed Assets.....	<u>\$148,689,903</u>	<u>\$ 51,099,740</u>	<u>(\$35,108,484)</u>	<u>\$164,681,159</u>

Enterprise Fund – Fixed assets consist of the following at June 30, 2001:

Golf Course Improvements.....	\$650,000
Additions.....	214,707
Less: accumulated depreciation.....	(314,117)
Total Fixed Assets.....	<u>\$550,590</u>

NOTE 5 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts' Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$6,608,000 for the fiscal year ended June 30, 2001, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 are funded by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Brookline Contributory Retirement Board and are funded by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

Massachusetts' contributory benefits are uniform from System to System. The System provides retirement, disability and death benefits to plan members and beneficiaries up to a maximum of 80% of a member's highest three year average rate of regular compensation. In addition to regular compensation, benefits are based upon a member's age, length of creditable service and group classification. Members become vested after ten years of creditable service. A normal retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65, except for certain hazardous duty and public safety employees who attain normal retirement at age 55.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the systemwide actuarially determined contribution that is apportioned among the employers based on active current payroll. The current and two preceding fiscal years apportionment required the Town to contribute approximately 97% of the annual pension cost of employers. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2001, 2000 and 1999 were \$8,092,739, \$7,924,310 and \$7,782,602 respectively, which equaled its required contribution for each fiscal year. At June 30, 2001, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2000 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included an 8.0% investment rate of return and projected salary increases of 5.5% per fiscal year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2001 was 28 years.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value Of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage Of Covered Payroll ((B-A)/C)
1/1/00	\$ 160,984	\$ 217,964	\$ 56,980	73.9%	\$ 43,029	132.4%
1/1/98	121,604	192,306	70,701	63.2	40,150	176.1
1/1/96	93,286	156,258	62,972	59.7	36,686	171.7

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The General Fund expenditure for fiscal year 2001 totaled approximately \$425,000.

NOTE 6 - SHORT-TERM FINANCING

The Town is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund and Enterprise Fund, respectively.

The Town has a \$10,500,000 BAN outstanding at June 30, 2001, for School Remodeling. The note carries an interest rate of 2.80% and is due on May 29, 2002.

NOTE 7 - LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's outstanding indebtedness at June 30, 2001, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule

	Interest Rate	Balance Outstanding July 1, 2000	Issued	Redeemed	Balance Outstanding June 30, 2001
Governmental Funds					
<i>Inside Debt Limit</i>					
Schools	3.79% - 6.38%	\$ 10,959,000	\$ -	\$ 1,417,000	\$ 9,542,000
General government	3.74% - 5.90%	20,292,000	3,488,000	1,925,000	21,855,000
Departmental equipment	3.74% - 5.51%	939,000	-	421,000	518,000
Athletic and recreational facilities	3.74% - 6.38%	1,525,000	-	270,000	1,255,000
Sub-total		<u>33,715,000</u>	<u>3,488,000</u>	<u>4,033,000</u>	<u>33,170,000</u>
<i>Outside Debt Limit</i>					
Water	0.00% - 6.63%	14,587,963	-	1,553,408	13,034,555
Schools	5.35%	52,180,000	-	1,915,000	50,265,000
Sub-total		<u>66,767,963</u>	<u>-</u>	<u>3,468,408</u>	<u>63,299,555</u>
Total governmental bonds and notes payable		<u>100,482,963</u>	<u>3,488,000</u>	<u>7,501,408</u>	<u>96,469,555</u>
Enterprise Fund					
<i>Inside Debt Limit</i>					
Golf course improvements	3.95%	-	300,000	-	300,000
Golf course improvements	5.15%	335,000	-	45,000	290,000
Sub-total		<u>335,000</u>	<u>300,000</u>	<u>45,000</u>	<u>590,000</u>
Total bonds and notes payable		<u>\$100,817,963</u>	<u>\$ 3,788,000</u>	<u>\$7,546,408</u>	<u>\$97,059,555</u>

Debt service requirements for principal and interest for bonds and notes payable in future fiscal years are as follows:

GOVERNMENTAL FUNDS

Year Ending June 30	Principal	Interest	Total
2002.....	\$ 7,453,518	\$ 4,875,403	\$ 12,328,921
2003.....	7,185,518	4,494,818	11,680,336
2004.....	6,700,519	4,165,159	10,865,678
2005.....	6,175,000	3,846,339	10,021,339
2006.....	6,155,000	3,543,289	9,698,289
Thereafter....	<u>62,800,000</u>	<u>23,020,498</u>	<u>85,820,498</u>
Total.....	<u>\$96,469,555</u>	<u>\$ 43,945,506</u>	<u>\$140,415,061</u>

ENTERPRISE FUND

Year Ending June 30	Principal	Interest	Total
2002.....	\$ 75,000	\$ 25,910	\$ 100,910
2003.....	75,000	22,438	97,438
2004.....	75,000	18,920	93,920
2005.....	75,000	15,358	90,358
2006.....	75,000	11,863	86,863
Thereafter....	<u>215,000</u>	<u>21,203</u>	<u>236,203</u>
Total.....	<u>\$ 590,000</u>	<u>\$ 115,692</u>	<u>\$ 705,692</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of 25% as a grant and 75% as a non-interest-bearing loan. The loan payable portion is payable in five equal annual installments. At June 30, 2001, the outstanding principal amount of these loans was \$421,555.

The Commonwealth of Massachusetts has approved construction assistance equal to approximately 61% to the Town. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2001, the Town received approximately \$3,116,000 of such assistance, and approximately \$52,993,000 will be received in future fiscal years. Of this amount approximately \$15,807,000 represents reimbursement of long-term interest costs, and approximately \$37,186,000 represents reimbursement of construction costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements in the amount of \$34,075,000 for reimbursable costs incurred to date.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. As of June 30, 2001, the Town had the following authorized and unissued debt:

<u>Description</u>	<u>Date Authorized</u>	<u>Authorized Amount</u>	<u>Bonds Sold</u>	<u>Amount Authorized and Unissued</u>
Title V – MWPAT	11/04/97	\$ 200,000	\$ -	\$ 200,000
Baker school remodeling	05/26/98	10,500,000	-	10,500,000
Water mains	05/25/99	3,213	-	3,213
Hall's pond	05/25/99	100,000	-	100,000
Putterham golf course	05/25/00	300,000	-	300,000
Water meters	05/25/00	1,200,000	900,000	300,000
Main library renovations	05/25/00	11,000,000	2,588,000	8,412,000
Lawrence school	05/25/00	935,000	-	935,000
Driscoll School	05/25/01	900,000	-	900,000
Police and Fire Headquarters	11/14/00	3,727,500	-	3,727,500
Wastewater Systems	05/25/01	6,000,000	-	6,000,000
Putterham Golf	05/25/01	2,840,000	300,000	2,540,000
Lawrence School	05/25/01	16,140,000	-	16,140,000
Total.....		<u>\$53,845,713</u>	<u>\$3,788,000</u>	<u>\$50,057,713</u>

Overlapping debt

The Town pays assessments that include debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The primary overlapping debt relates to the MBTA, MWRA and Norfolk County. Details related to the Town's overlapping debt at June 30, 2001, are as follows:

<u>Governmental Unit</u>	<u>Long-term debt Outstanding (Unaudited)</u>	<u>Brookline's Estimated Share</u>	<u>Brookline's Estimated Indirect Debt</u>
MBTA.....	\$ 350,509,002	3.67%	\$ 12,859,971
MWRA.....	4,461,318,000	2.86%	127,593,695
Norfolk County.....	150,000	11.10%	16,656
Total.....	<u>\$4,811,977,002</u>		<u>\$140,470,322</u>

General Long -Term Obligations Account Group

The Town records its liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the Town are its obligations for compensated absences and landfill closure. These liabilities will be liquidated in the future from Governmental Funds.

During the fiscal year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	Balance July 1, 2000	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2001
Long-Term Bonds and Notes.....	\$100,482,963	\$3,488,000	(\$ 7,501,408)	\$ -	\$ 96,469,555
Compensated Absences.....	5,886,660	-	-	(24,660)	5,862,000
Landfill Closure.....	3,983,000	-	-	1,644,000	5,627,000
Total.....	<u>\$110,352,623</u>	<u>\$3,488,000</u>	<u>(\$7,501,408)</u>	<u>\$1,619,340</u>	<u>\$107,958,555</u>

NOTE 8 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town is self-insured for its health, workers' compensation and municipal building insurance activities. These activities are accounted for the Town's Internal Service Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

(a) Health Insurance

The Town estimates it's incurred But Not Reported (IBNR) claims based on a two-month claims paid average. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$300,000.

At June 30, 2001 the amount of the liability for health insurance claims totaled \$980,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 1999 are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2000.....	\$ 975,000	\$ 8,500,439	(\$8,764,439)	\$711,000
Fiscal Year 2001.....	711,000	10,216,655	(9,947,655)	980,000

(b) Workers' Compensation

Workers' compensation claims are administered by a third party and are funded on a pay-as-you-go basis from annual appropriations. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$300,000. The Town estimates its future workers' compensation liability based on history and injury type.

At June 30, 2001 the amount of the liability for workers' compensation claims totaled \$3,549,000. Changes in the reported liability since July 1, 1999 are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2000.....	\$1,145,000	\$1,460,086	(\$ 861,086)	\$1,744,000
Fiscal Year 2001.....	1,744,000	2,944,293	(1,139,293)	3,549,000

The Town's IBNR claims for municipal building insurance are not material at June 30, 2001, and therefore are not reported.

NOTE 9 – CAPITAL STABILIZATION FUND

The Town has \$3,724,408 in a Capital Stabilization Fund classified in the Expendable Trust Fund. The Town transferred \$95,400 from the approved operating budget into the fund during fiscal year 2001. The Capital Stabilization Fund may be used for capital purposes upon Town Meeting approval.

NOTE 10 - LANDFILL CLOSURE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1972. The Town has reflected \$5,627,000 as the estimate of the landfill closure liability at June 30, 2001, in the General Long-Term Obligations Account Group. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2001. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 11 – INTERFUND LOAN

On June 12, 2001, The General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund to meet projected and capital expenses. The note is payable at \$25,000 per year, due on July 1 of each year beginning on July 1, 2002.

NOTE 12 - COMMITMENTS

The Town has entered into a long-term contract with Arthur Schofield, Inc. to direct the acceptable waste it collects to a transfer station. The Town is charged a flat rate per ton that is subject to increase annually. There are no minimum tonnage requirements that the Town must comply with.

The Town has entered into a long-term contract with Browning Ferris Industries to provide recycling services. The Town is charged a flat rate of \$73.10 per ton of acceptable waste collected and hauled. There are no minimum tonnage requirements that the Town must comply with.

The School Department has entered into an agreement with Laidlaw Transit, Inc. to provide for the transportation of its students. The contract bears an annual cost of approximately \$850,000 and expires August 31, 2002.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$50,000,000 for the remodeling/renovations of the Baker, Lawrence and Driscoll schools, the upgrading and replacing of water meters, renovations to the Main library and renovations of the Putterham golf course.

NOTE 13 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the Town grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2001, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2001, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2001.

Supplementary Information

SCHEDULE OF LONG TERM DEBT

FISCAL YEAR ENDED JUNE 30, 2001

	Issue Amount	Interest Rate	Maturity Date	Balance Outstanding July 1, 2000	Issued FY 2001
<i>INSIDE DEBT LIMIT</i>					
SCHOOLS					
1991 School Boilers	350,000	5.91%	08/15/06	\$ 150,000	\$ -
1991 Driscoll School Gymnasium	400,000	5.91%	08/15/06	175,000	-
1992 School Boilers	800,000	5.30%	09/01/10	485,000	-
1992 Baker School Roof	1,500,000	4.92%	09/01/02	450,000	-
1992 Runkle School Repairs	295,000	5.35%	09/01/12	190,000	-
1992 High School Windows	250,000	5.31%	09/01/12	145,000	-
1992 High School Safety System	510,000	5.27%	09/01/09	300,000	-
1994 High School Safety System	1,000,000	3.94%	01/15/04	400,000	-
1994 Heath Roof	130,000	3.92%	01/15/04	52,000	-
1995 Heath School	3,200,000	5.35%	04/01/15	2,400,000	-
1995 Various School Buildings	750,000	5.90%	04/01/10	500,000	-
1996 Driscoll Auditorium	100,000	4.19%	02/15/06	69,000	-
1996 Devotion Windows	160,000	4.20%	02/15/06	112,000	-
1996 Devotion Roof	75,000	4.19%	02/15/06	52,000	-
1996 Lawrence Roof	100,000	4.20%	02/15/06	69,000	-
1996 Heath School	300,000	4.11%	02/15/06	180,000	-
1997 Driscoll School Repairs	400,000	4.70%	06/15/07	280,000	-
1997 Devotion School Repairs	750,000	4.70%	06/15/07	525,000	-
1997 Life Safety Systems	300,000	4.70%	06/15/07	210,000	-
1997 Various School Buildings	220,000	4.70%	06/15/07	154,000	-
1997 Baker School Remodeling	540,000	4.87%	06/15/02	216,000	-
1998 Driscoll Windows	200,000	4.13%	06/15/08	160,000	-
1998 Runkle Windows	300,000	4.13%	06/15/08	240,000	-
1998 High School Canopy	100,000	3.93%	06/15/03	60,000	-
1998 Life Safety Systems	600,000	4.13%	06/15/08	480,000	-
1998 Baker Remodeling	280,000	3.92%	06/15/03	165,000	-
2000 Fire Alarm Systems	800,000	4.99%	04/01/12	800,000	-
2000 Runkle Windows	290,000	4.94%	04/01/10	290,000	-
2000 Pierce Bathrooms	100,000	4.94%	04/01/10	100,000	-
2000 Life safety systems	800,000	4.94%	04/01/10	800,000	-
2000 Driscoll Roof & Elevator	450,000	4.94%	04/01/10	450,000	-
2000 Old Lincoln Elevator & Remodeling	300,000	4.94%	04/01/10	300,000	-
sub total	16,350,000			10,959,000	-

SCHEDULE OF LONG TERM DEBT

FISCAL YEAR ENDED JUNE 30, 2001

	Issue Amount	Interest Rate	Maturity Date	Balance Outstanding July 1, 2000	Issued FY 2001
GENERAL GOVERNMENT					
1991 Library Roof	415,000	5.89%	08/15/06	175,000	-
1992 Town Hall Elevators	100,000	5.16%	09/01/07	51,000	-
1992 Grove Street Building	60,000	5.02%	09/01/04	25,000	-
1992 Town Hall Repairs	95,000	5.33%	09/01/11	60,000	-
1992 Branch Library Repairs	200,000	5.36%	09/01/12	130,000	-
1992 Fire Station Repairs	925,000	5.13%	09/01/06	455,000	-
1992 Sidewalk Construction	1,500,000	4.29%	09/01/02	450,000	-
1994 Various Buildings	380,000	3.94%	01/15/04	152,000	-
1994 Library Building	140,000	3.92%	01/15/04	56,000	-
1994 Fire Station Repairs	150,000	3.92%	01/15/04	60,000	-
1995 Fire Station Repairs	880,000	4.80%	04/01/05	440,000	-
1995 Various Public Buildings	430,000	5.90%	04/00/10	265,000	-
1996 Town Hall Repairs	200,000	4.19%	02/15/06	136,000	-
1996 Building Alarm Systems	280,000	4.20%	02/15/06	197,000	-
1996 Heat & Light Plant Roof	100,000	4.19%	02/15/06	69,000	-
1996 Beacon Street Construction	500,000	3.74%	02/15/01	100,000	-
1996 Surface Drains	400,000	4.11%	02/15/06	240,000	-
1996 Library Remodeling	160,000	4.11%	02/15/06	96,000	-
1996 Library Remodeling Plans	150,000	3.74%	02/15/01	30,000	-
1996 Various Public Buildings	550,000	4.11%	02/15/06	330,000	-
1997 Municipal Service Center (1/2 issue)	3,800,000	4.97%	06/15/17	3,230,000	-
1997 Surface Drains	500,000	4.86%	06/15/07	350,000	-
1998 Municipal Service Center (2/2 issue)	3,800,000	4.61%	06/15/18	3,420,000	-
1998 Wastewater Systems	2,000,000	4.56%	06/15/18	1,760,000	-
1998 Storm Drains	500,000	4.13%	06/15/08	400,000	-
1998 Library Renovations	800,000	4.13%	06/15/08	640,000	-
1998 Sewer Main Reconstruction	127,400	3.92%	06/15/03	75,000	-
2000 Public Safety Facility	600,000	4.82%	04/01/04	600,000	-
2000 Senior Center	2,750,000	5.28%	04/01/20	2,750,000	-
2000 Fire Station #1	250,000	4.94%	04/01/10	250,000	-
2000 Sewer Main Reconstruction	1,515,000	5.28%	04/01/20	2,000,000	(485,000)
2000 Public Safety Headquarters	485,000	5.28%	04/01/20	-	485,000
2000 Water Dept Garage Remodeling	1,300,000	5.28%	04/01/20	1,300,000	-
2001 Main Library Renovations	2,588,000	3.95%	06/01/11	-	2,588,000
2001 Water Meters	900,000	3.95%	06/01/11	-	900,000
sub total	29,530,400			20,292,000	3,488,000
DEPARTMENTAL EQUIPMENT					
1994 Traffic Signals	160,000	3.93%	01/15/04	64,000	-
1996 Computer Equipment	900,000	3.74%	02/15/01	180,000	-
1997 Parking Meters	250,000	4.86%	06/15/02	100,000	-
1998 Fire Ladder Truck	450,000	3.93%	06/15/03	270,000	-
2000 Parking Meters	325,000	4.82%	04/01/04	325,000	-
sub total	2,085,000			939,000	-

SCHEDULE OF LONG TERM DEBT

FISCAL YEAR ENDED JUNE 30, 2001

	Issue Amount	Interest Rate	Maturity Date	Balance Outstanding July 1, 2000	Issued FY 2001
ATHLETIC AND RECREATIONAL FACILITIES					
1986 Larz Anderson Park	240,000	5.89%	08/15/04	80,000	-
1991 Warren Field	380,000	5.89%	08/15/06	175,000	-
1991 Driscoll Playground	245,000	5.89%	08/15/06	105,000	-
1994 Various outdoor facilities	350,000	3.94%	01/15/04	140,000	-
1996 Soule Playground	330,000	4.09%	02/15/06	190,000	-
1996 Heath School Playground	180,000	3.74%	02/15/01	35,000	-
1998 Eliot Recreation Center	300,000	4.13%	06/15/08	240,000	-
1998 Schick Playground	250,000	4.13%	06/15/08	200,000	-
1998 Larz Anderson Park	100,000	3.93%	06/15/03	60,000	-
2000 Runkle Playground	300,000	4.94%	04/01/10	300,000	-
sub total	2,675,000			1,525,000	-
ENTERPRISE FUND					
1992 Golf Course Improvements	650,000	5.15%	09/01/07	335,000	-
2001 Putterham Golf	300,000	3.95%	06/01/11	-	300,000
sub total	950,000			335,000	300,000
TOTAL INSIDE DEBT	51,590,400			34,050,000	3,788,000
OUTSIDE DEBT LIMIT					
WATER					
1986 Water Mains	1,550,000	5.15%	12/15/01	200,000	-
1987 Water Mains Phase II	2,150,000	6.63%	12/01/02	350,000	-
1990 Water Mains	3,200,000	5.89%	08/15/06	1,740,000	-
1992 Water Mains	1,600,000	5.27%	09/01/12	994,000	-
1994 Water Mains	5,200,000	4.54%	01/15/14	3,636,000	-
1996 Sewer Mains (MWRA Financed)	804,450	0.00%	03/01/01	160,890	-
1997 Water Mains (1/2 issue)	2,950,000	4.97%	06/15/17	2,545,000	-
1998 Water Mains (2/2 issue)	2,950,000	4.60%	06/15/18	2,640,000	-
1999 Water Rehab (MWRA Financed)	702,591	0.00%	06/18/04	562,073	-
2000 Water Mains	1,760,000	5.27%	04/01/20	1,760,000	-
sub total	22,867,041			14,587,963	-
SCHOOLS					
1992 Lincoln School	13,000,000	5.35%	09/01/12	8,380,000	-
2000 High School	43,800,000	5.33%	04/01/20	43,800,000	-
sub total	56,800,000			52,180,000	-
TOTAL OUTSIDE DEBT	79,667,041			66,767,963	-
TOTAL ALL DEBT	\$ 131,257,441			\$ 100,817,963	\$ 3,788,000

TOWN OF BROOKLINE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2001

TOWN OF BROOKLINE, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FISCAL YEAR ENDED JUNE 30, 2001

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323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

RAN-ONE | member

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the general purpose financial statements of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated October 26, 2001, which expresses an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.


Compliance

As part of obtaining reasonable assurance about whether the Town of Brookline's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Brookline's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town of Brookline in a separate letter dated October 26, 2001.

This report is intended solely for the use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.


October 26, 2001



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

RAN·ONE | member

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

Compliance

We have audited the compliance of the Town of Brookline, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001. The Town of Brookline's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Brookline's management. Our responsibility is to express an opinion on the Town of Brookline's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Brookline's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Brookline's compliance with those requirements.

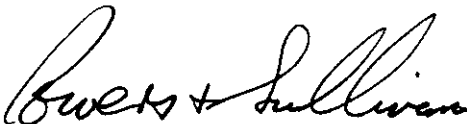
In our opinion, the Town of Brookline, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

The management of the Town of Brookline, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Brookline's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the use of management of the Town of Milton, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.


October 26, 2001



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

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 RAN-ONE member

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the general purpose financial statements of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated October 26, 2001, which expresses an unqualified opinion. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 26, 2001

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE: <u>Passed through State Department</u> <u>of Education:</u>		
Food Distribution	10.550	\$ 57,414
School Lunch Program	10.553	208,097
School Breakfast Program	10.555	47,929
TOTAL AGRICULTURE		313,440
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: <u>Passed through State Office for</u> <u>Communities and Development:</u>		
Community Development Block Grant	14.218	1,477,730 *
Home Investment Partnership Act	14.239	25,027
TOTAL HOUSING AND URBAN DEVELOPMENT		1,502,757
U.S. DEPARTMENT OF JUSTICE: <u>Passed through State Department</u> <u>of Justice:</u>		
Joint Drug Enforcement Grant	16.580	49,859
Pine Manor Partnership	16.588	32,344
Violence Against Women	16.590	17,151
Advancing Community Policing	16.710	22,777
Cops More	16.710	22,885
Cops School Based Partnership	16.710	86,743
Problem Solving Partnership	16.710	25,346
IAFF Training Program	16.unknown	27,294
TOTAL JUSTICE		284,399
U.S. DEPARTMENT OF EDUCATION: <u>Passed through State Department</u> <u>of Education:</u>		
Title I Distribution	84.010	415,794 *
SPED 94-142 Allocation	84.027	559,536 *
Occupational Education	84.048	41,373
Indo-Chinese Refugee Program	84.146	81,035
Chapter II Block Grant	84.151	25,355
Title 2 Math/Science	84.164	32,799
Drug Free Schools	84.186	97,784
Goals 2000 Preservice Program	84.276	13,695
Goals 2000 Induction Year	84.276	42,970
Professional Development	84.276	4,949
Technology Literacy Challenge-Adoption	84.318	28,934
Technology Literacy Challenge-Project Meet	84.318	4,735
Class Size Reduction Program	84.340	96,998
TOTAL EDUCATION		1,445,957

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Massachusetts Executive Office</u>		
<u>of Elderly Affairs:</u>		
Title III Part B, Special Programs for the Aging	93.044	22,910
Health Protection	93.991	<u>129,011</u>
TOTAL HEALTH AND HUMAN SERVICES		<u>151,921</u>
TOTAL		\$ <u><u>3,698,474</u></u>

* Major program

See notes to schedule of expenditures of federal awards.

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Brookline, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the Town of Brookline, Massachusetts, are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of the Town of Brookline, Massachusetts.
2. No reportable conditions relating to the audit of the general purpose financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the general purpose financial statements of the Town of Brookline, Massachusetts, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Brookline, Massachusetts, expresses an unqualified opinion.
6. There was one audit findings relative to the major federal award programs for the Town of Brookline, Massachusetts, that are described in Part C. of this Schedule of Findings and Questioned Costs.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grant	14.218
Title I Distribution	84.010
SPED 94-142 Allocation	84.027

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Brookline, Massachusetts, was not determined to be a low-risk auditee.

B. Findings-Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Program Audit

U.S. DEPARTMENT OF EDUCATION

Sped 94-192 Allocation
CFDA No. 84-027

01-1: *Condition and Criteria:* Request for Funds (RF-1) were not submitted to the Department of Education on a timely basis.

Cause: Lack of procedures in place to prepare and submit reports on a timely basis.

Effect: The Town is not in compliance with the grant agreements entered into with the Department of Revenue. None

Recommendation: We recommend the Town implement procedures to comply with all grant reporting requirements on a timely basis.

Grantee's Response

The Town has implemented procedures to comply with all grant reporting requirements on a timely manner. Quarterly grant reviews are conducted by the Administration and Finance Office to review the status of grant applications and amendments, quarterly reports, cash requests and cash received. The Deputy Superintendent for Administration and Finance and the Grants Administrator are notified of all issues of non-compliance.

D. Prior Year Audit Findings and Questioned Costs

U.S. DEPARTMENT OF EDUCATION

2000-Finding No.1: Sped 94-142

Condition: Requests for Funds (RF-1) were not submitted to the Department of Education on a timely basis. Federal regulations require the Town to file these requests on a timely basis.

Recommendation: We recommended that the Town implement procedures to comply with all grant reporting requirements.

Current Status: Based on observations, inquiry of management and audit work performed for fiscal year 2001, we have concluded that the finding noted above has not been resolved.

2000-Finding No.2: Title 1 Allocation

Condition: Federal Child Count Report was not filed on a timely basis. The report was not filed on a timely basis. Federal regulations require the town to file these reports on a timely basis.

Recommendation: We recommend the Town implement procedures to comply with all grant reporting requirements on a timely basis.

Current Status: Management submitted the Federal Child Count Report in a timely manner for fiscal year 2001.

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2000

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323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

www.powersandsullivan.com

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

 RAN ONE | member

We are presenting, for your consideration, our comments and recommendations regarding the Town of Brookline, Massachusetts' internal control structure and other matters. This management letter is critical in nature and does not identify the strengths of the financial systems.

As part of our audit of the general purpose financial statements of the Town of Brookline, Massachusetts for the year ended June 30, 2000, we considered the Town's internal accounting structure for the purpose of rendering an opinion on the Town's general purpose financial statements. Our consideration of the internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the Town's internal control structure to prevent or detect all errors and irregularities.

Our consideration of the Town's internal control structure, made for the limited purpose described above, disclosed no condition that we believe to be a material weakness. However, certain matters came to our attention that we want to report to you. These matters discussed herein were considered by us during our audit and do not modify the opinion expressed in our auditors' report, dated September 27, 2000, on such general purpose financial statements.

This report is intended solely for the information and use of management of the Town of Brookline and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these comments and recommendations in greater detail or otherwise assist in their implementation.

September 27, 2000

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TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2000

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INFORMATIONAL COMMENTS

DEPARTMENT OF EDUCATION REQUIREMENTS

Informational Comment

During fiscal year 2000, the Commonwealth of Massachusetts' Department of Education (DOE) developed a program that requires each Town to have a separate audit of their annual Pupil & Financial Report that is submitted to the DOE.

These audits are effective for the fiscal year ending June 30, 2000, and must be completed nine months from the close of the fiscal year.

Recommendation

We recommend the Town's School Committee appropriate the necessary funds to complete the fiscal year 2000 audit within the time frame allowed. We would be pleased to discuss this issue with you in greater detail at your earliest convenience.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #34

Informational Comment

Last year we informed you that the GASB, which is the recognized standard-setting body for establishing governmental accounting and financial reporting principles, issued Statement #34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.

This Statement established new financial reporting requirements for state and local governments. It will create new information and will restructure much of the information currently presented. The new reporting model will focus on dual perspective reporting that will require full accrual entity-wide financial statements be presented along with fund based financial statements.

The new reporting model consists of the following three sections:

1. *Management’s Discussion and Analysis*, which will introduce the basic financial statements and provide an analytical overview of the government’s financial activities.

2. *Basic Financial Statements*

Government-Wide Financial Statements, consisting of a statement of net assets and a statement of activities. These full accrual based statements will distinguish between governmental (General, Special Revenue, Debt Service, Capital Projects, Internal Service and various Fiduciary Funds) and business type activities (Enterprise Funds). They will also distinguish between the Primary Government and Component Units. Certain Fiduciary Funds will be excluded such as Pension Trust Funds, Private-purpose Trust Funds and Agency Funds.

Fund-Based Financial Statements presentation will be similar to the current reporting model. Separate combining financial statements will be prepared for Governmental, Proprietary and Fiduciary Funds. A separate column is required for all “Major” Funds. In addition, reconciliation between the Government-Wide and Fund-Based governmental activities is required.

Notes to the Financial Statements consist of notes that provide information that is essential to a user’s understanding of the basic financial statements.

3. *Required Supplementary Information* requires budgetary comparison schedules along with other types of data required by previous GASB pronouncements.

The implementation of the new reporting model will require the community to allocate significant additional resources of time and money during both the transition period and every year thereafter. There will be major changes of how assets, liabilities, revenues and expenses are accounted for, each of which poses its own different set of transition and long-term solutions. One example is the requirement that fixed assets, including infrastructure, be reported at historical cost, net of accumulated depreciation. A transitional project to inventory and value all fixed assets is a major undertaking. Subsequent to the initial inventory a fixed asset sub-system would need to be maintained to track all additions, disposals and depreciation.

The Town’s implementation date is fiscal year 2002. However, the scope of the reporting changes requires the Town to begin planning during fiscal year 2001.

Recommendation

We recommend management be proactive and develop an implementation strategy to complete the transition in an orderly manner. We would be pleased to discuss this issue in greater detail or otherwise assist you during implementation.

Prior Year Comments - Resolved

PRIOR YEAR COMMENTS – RESOLVED

The following identifies our prior year Management Letter comments that were resolved during fiscal 2000. Please refer to the fiscal 1999 Management Letter, dated October 1, 1999, for our original comments.

Bank Reconciliations

There was one comment related to several bank reconciliations containing unidentified variances between the Treasurer and the bank that were not resolved on a timely basis. We observed that all cash reconciliations were performed in a timely manner and unidentified variances were resolved within an immaterial amount.

Unauthorized Bank Accounts

There was one comment related to 32 bank accounts being open under the Town's tax identification number that were not under the supervision of the Treasurer. Our audit procedures identified only two remaining accounts using the Town's tax identification number. The account numbers have been given to the Treasurer.

School Department – Federal and State Grants

There was one comment related to the Town not utilizing the revenue budget feature for individual Special Revenue Funds. We observed that the revenue budget feature in the Town's accounting system is now being used.

School Lunch Program

There were one comment relating to the Town not maintaining records to account for the receipt, distribution/use, and inventory of food commodities and also that, Requests for Reimbursements were not reconciled to the master list of students eligible to receive benefits. We noted that an automated inventory system has been implemented in half of the schools and is in process of being implemented in all schools. We also noted that Requests for Reimbursements are reconciled to the number of eligible participants prior to being submitted.

Business Continuity Plan

Management has developed and implemented a plan in anticipation of year 2000 issues. This plan meets the requirements of a business continuity plan.

Davis Bacon Compliance Testing

The Town was able to provide supporting documentation in relation to regulations for projects covered under the Davis-Bacon Act.

General Ledger

Fiscal year 1999 was closed in a timely manner.

School Café Cash Receipts

We noted that all school café cash receipts have been turned over to the Treasurer's office in a timely manner.

Prior Year Comments - Unresolved

FIXED ASSETS

Comment

The Town has accounted for its general fixed assets by tracking new additions each fiscal year. The majority of the dollar value of fixed assets relates to land and buildings of which the Town has the required inventory at historical cost. For all other fixed assets such as furniture, equipment and vehicles the Town does not complete periodic inventories of these assets. Therefore disposals of these assets, with limited useful lives, are not recorded.

Although not material to the general fixed assets as a whole, the periodic inventory by location will produce more accurate records.

Recommendation

We recommend that management work to establish a complete fixed asset listing by location, conduct periodic inventories and implement the necessary procedures that would allow for the updating for additions and deletions each fiscal year.

Management's Response

As a part of the readiness plan for implementation of GASB 34, we are working with various departments to finalize a baseline fixed asset inventory and to develop procedures to keep the inventory current.

MAINTANENCE OF GENERAL LEDGER BALANCES

Comment

Through analytical procedures applied to balance sheet accounts recorded on the Town's general ledger as of June 30, 2000, we noted variances from the general ledger to the detail available supporting the account balances. Although immaterial to the financial statements as a whole, all accounts maintained on the Town's general ledger should be reconciled on a monthly basis.

The following represent areas noted in which variances existed between the detail and the general ledger balances or general ledger accounts that had no activity during fiscal 2000:

- Various year end accounting estimates
- Payroll liability accounts
- Bid deposit accounts
- Special Revenue grant accounts

Recommendation

We recommend that the Comptroller's Office reconcile all accounts on the Town's general ledger and record the appropriate entries to bring all balances current and in line with the supporting documentation. We also recommend that monthly reconciliation and review procedures be implemented to maintain an accurate balance sheet.

Management's Response

With the completion of the new financial management system conversion, we will be implementing monthly reconciliations of major account groups within the General Fund and select Capital, Trust, and Special Revenue Funds and quarterly reconciliations of the smaller funds. We will also be meeting periodically with appropriate School Department personnel to discuss their interim balances in Special Revenue and Trust Funds.

STUDENT ACTIVITY FUNDS

Comment

The Brookline Schools maintain separate bank accounts that are used to administer revolving funds for student related activities. The revenues and expenditures that pass through these bank accounts are not subjected to the same internal controls as other Town revenues and expenditures. These bank accounts are not authorized or maintained by the Treasurer/Collector. The Brookline Schools must close these bank accounts, deposit the balance with the Treasurer/Collector and provide a complete accounting of past activity to the Comptroller.

In the future, student activity funds are to be maintained in accordance with Chapter 71, Section 47, Massachusetts General Law as amended by Chapter 66 of the Acts of 1996. The law allows the School Committee to authorize School Principals to receive funds in connection with the administration of certain student activities. Such funds would be deposited with the Treasurer/Collector into an interest bearing bank account (the Student Activity Agency Account), that is to be used for the express purpose of administering student activities. Interest earned by the Student Activity Agency Account shall be retained by the fund and disbursed at the discretion of the School Committee. In addition to the student Activity Agency Account, the School Committee may authorize the Treasurer/Collector to establish a checking account (the Student Activity Checking Account), from which funds may be expended by the School Principal for the exclusive benefit of student activities. The Student Activity Checking Account will be maintained by the School Principal and may only be used for student activity disbursements.

The School Committee shall vote to set the maximum balance that may be on deposit in the Student Activity Checking Account. The School Principal designated to maintain such Student Activity Checking Account shall give bond to the Town in such amount as the Treasurer/Collector shall determine to secure the School Principal's faithful performance of his duties pertaining such account. To the extent that the funds are available in such Student Activity Agency Account, funds up to the maximum balance set by the School Committee shall be transferred from the Student Activity Agency Account through the warrant process to initially fund such Student Activity Checking Account.

Periodically, to the extent that funds are available in such Student Activity Agency Account, the Treasurer/Collector shall reimburse the Student Activity Checking Account, through the warrant process, to restore the limit set by the School Committee. The School Principal shall adhere to the administrative procedures prescribed by the Treasurer/Collector and Comptroller. An annual audit of the student activity funds shall be conducted in accordance with the procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the Department of Education.

Recommendation

We recommend the Town implement policies and procedures to ensure compliance with Chapter 71, Section 47, Massachusetts General Law as amended by Chapter 66 of the Acts of 1996.

Management's Response

The School Department adopted policies and procedures to ensure compliance with Chapter 71, Section 47 which have resulted in new accounts established for implementation in fiscal year 2002 for all Student Activity Accounts at all schools.

PURCHASE ORDERS

Comment

The following summarizes the Town's manual processes related to the issuance of purchase orders:

- Individual Department's are required to manually prepare requisition forms.
- The Purchasing Department manually prepares purchase orders subsequent to the Purchasing Agent's approval.
- The Purchasing Agent manually enters purchase orders into the accounting system to properly encumber funds.

The manual processes outlined above creates additional administrative work resulting in inefficiencies in the Town's purchase order process.

Recommendation

We recommend management utilize the accounting system for the processing of purchase orders. Utilization of this system will facilitate the purchase order process and improve efficiencies.

Management's Response

With the implementation of the new financial management system, we are processing requisitions and purchase orders on line.

POLICE DETAILS

Comment

The Police special details system is maintained to calculate total detail hours and to ensure the fair distribution of detail hours, as well as to track billing and receivables. Intergovernmental special details are recorded in the system to track detail hours even though there is no receivable associated with them. These are details required by another Town department (i.e. school dance).

The Police Department does not reconcile outstanding receivables per their detail system to the Town's general ledger. The Police Department has direct access to the general ledger system, which is not utilized to validate their records. Maintenance of detail to support monthly reconciliation between the two departments would strengthen internal controls over financial reporting and would allow errors to be detected and corrected on a timely basis.

The Police Department does not have a policy of reviewing the collectibility of receivables over one year old. It does not appear that the Police have procedures in place to aggressively pursue overdue amounts on a timely basis. This statement is supported by the fact that as of June 30, 2000 the Town's general ledger is reporting a deficit balance of approximately \$302,000. There is documentation for only approximately \$27,000 of detail receivables. This appears to indicate a situation in which a permanent deficit exists that must be funded.

The department stated that their policy of taking vendors to small claims court after bills are 90 days overdue is a sufficient procedure to prevent customers from avoiding payments. However, we noted several instances in which the Police could not provide us with documentation verifying that all receivables over 90 days old were being challenged in court.

Recommendation

We recommend that the Police department, in conjunction with the Town, determine the amount of the permanent deficit that exists. A funding solution will then be required to eliminate the deficit.

A deficit in this fund can only be created if a vendor does not pay their bill. Since there appears to be a significant deficit, the current process is not adequate to safeguard the Town's assets. In order not to create future deficits a formal billing and collection procedures, based on sound business practices, must be developed and implemented. These procedures must include full monthly reconciliation with the Town's general ledger.

These new procedures must be applied to all current outstanding receivables before they are determined to be uncollectible and written off.

Management's Response

The Comptroller's Office and the Police Department are working together with the Deputy Town Administrator and the Information Technology Department to develop a procedure to accurately account for all Police Detail receivables.

Current Year Comments

TOWN CLERKS OFFICE

Comment

We noted the following deficiencies related to the operations of the Town Clerk's Office:

- Pre-numbered permits are not being utilized. Using and accounting for pre-numbered permits and licenses is the most effective method of internal control over cash receipts.
- Manual schedules are being maintained to account for various permits and licenses issued. The use of manual schedules is more susceptible to human error and creates inefficiencies in performing the day-to-day operations of the office.

Recommendation

We recommend that all permits and licenses be pre-numbered and accounted for. We also recommend that the Town Clerk's office automate the manual functions of the office.

Management's Response

The Town Clerks Office is in the process of implementing Permits Plus software, which should eliminate many of the manual functions of the office. Certain licenses, particularly fish and game, do not lend themselves well to the permits plus system. However, a computerized cash register recently installed should alleviate much of the manual record keeping for those items not covered by Permits Plus.

